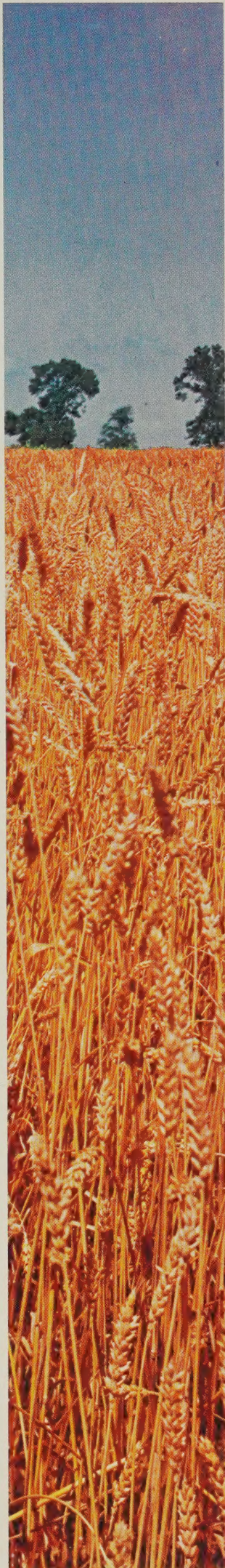
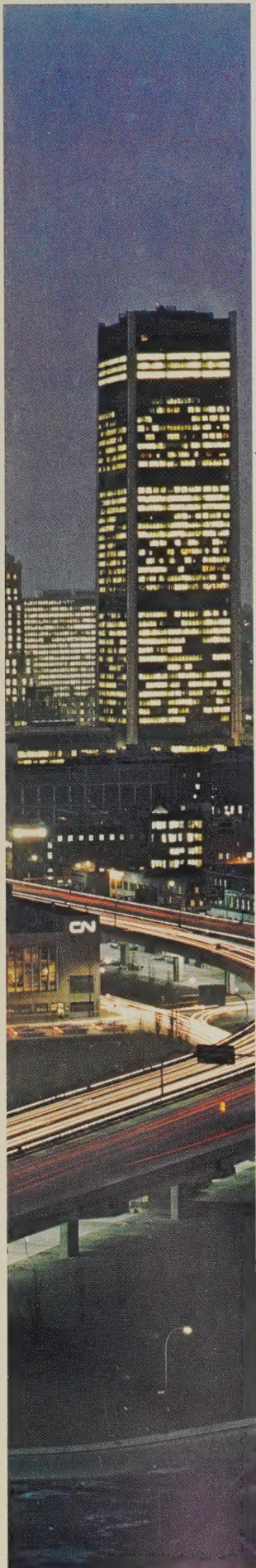


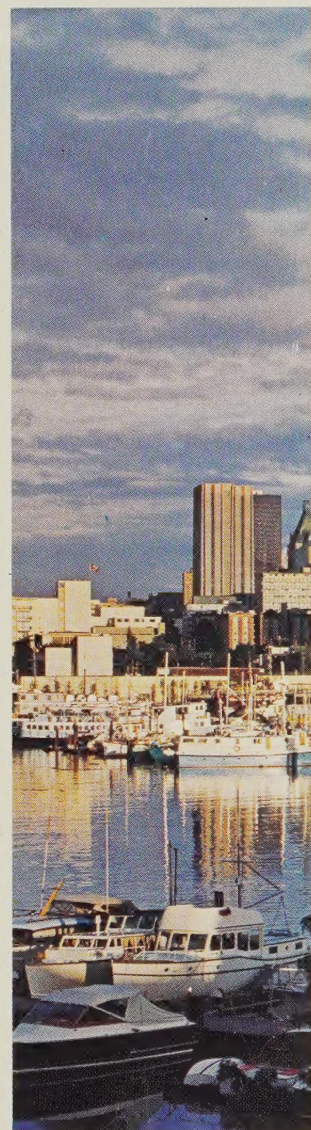
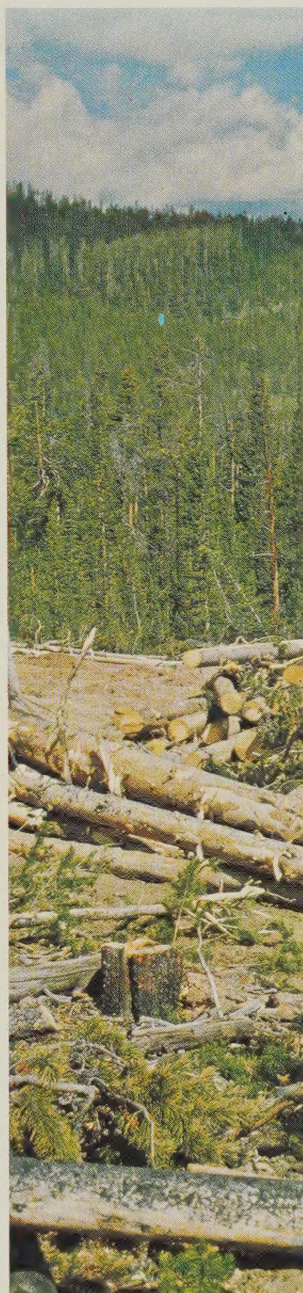
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International
Harvester
Company
of Canada,
Limited



Annual
Report
1972





International Harvester Company of Canada, Limited

General Office: 208 Hillyard Street, Hamilton, Ontario

Annual Report for the year ended October 31, 1972

International Harvester Company of Canada, Limited designs, manufactures, distributes and services power equipment. Its products are used primarily in transportation, agriculture, construction and natural resource industries, landscape maintenance and recreation.

The Company's products are sold and serviced throughout Canada by dealers, distributors and Company-owned branches and stores. The export sales administration is based at the General Office. Dealer and customer financial services are provided through Company finance and leasing subsidiaries.

The General Office is in Hamilton, Ontario. Manufacturing plants of the Company and its subsidiary, Pacific Truck and Trailer Ltd., are located in Chatham and Hamilton, Ontario; Candiac, Quebec, and Vancouver, B.C. Other operations across the country include district sales offices, credit offices, parts depots, machine distribution centers and retail sales and service outlets.

Through its products and services, the Company has long been associated with the economic growth of Canada. The front cover of this report reflects some aspects of this growth. The cities of Montreal and Vancouver exemplify developments that are taking place in our urban centers. The increasing awareness of the importance of our export-import trade, as a growing industrial nation, is illustrated by the Seaway. Our resources, which continue to be a major potential for development in every area of Canada, are represented by scenes of western agriculture and of forestry in the Atlantic provinces.

FINANCIAL HIGHLIGHTS

	1972	1971
Sales	\$363,682,000	\$278,929,000
Net Income	\$ 17,006,000	\$ 8,181,000
Per cent of Sales	4.68%	2.93%
Per cent of Equity Capital — Beginning of Year	17.41%	8.92%
Dividends Paid	\$ 8,450,000	\$ 2,175,000
Income Retained	\$ 8,556,000	\$ 6,006,000
Taxes — Federal, Provincial and Local	\$ 34,205,000	\$ 23,960,000
Capital Expenditures	\$ 1,561,000	\$ 1,584,000
Depreciation	\$ 3,019,000	\$ 3,360,000
Long-term Debt	\$ 347,000	\$ 1,998,000
Equity Capital at End of Year	\$106,243,000	\$ 97,688,000
Average Number of Employees	5,667	4,812

Ce rapport est publié en français et en anglais. Si vous préférez un exemplaire français, veuillez écrire au Directeur des Relations publiques de la compagnie.

Officers and Executive Committee



W. N. Smith, W. R. Fleming



J. L. Wade, L. W. Lincke, C. R. Dean



E. R. Griffith, E. L. Edmonds, R. E. Penfold

DIRECTORS AND OFFICERS

at November 1, 1972

BOARD OF DIRECTORS

- | | |
|---------------------|--------------------|
| Charles C. Brannan | William R. Fleming |
| Robert H. Burnside | Lester W. Lincke |
| William E. Callahan | W. Norman Smith |
| Charles R. Dean | John L. Wade |
| Earle L. Edmonds | |

OFFICERS

- | | |
|--------------------|--|
| W. Norman Smith | <i>President</i> |
| William R. Fleming | <i>Senior Vice President, Marketing</i> |
| Charles R. Dean | <i>Vice President, Manufacturing and Employee Relations</i> |
| Lester W. Lincke | <i>Vice President and Comptroller</i> |
| John L. Wade | <i>Vice President, Farm, Industrial and Construction Equipment Sales</i> |
| Earle L. Edmonds | <i>Secretary</i> |
| Edward R. Griffith | <i>Treasurer</i> |

OTHER EXECUTIVES

- | | |
|----------------------|---|
| W. Norman Buckingham | <i>Manager, Public Relations</i> |
| William Haslam | <i>Manager, Real Estate and Facility Planning</i> |
| T. Donald Husband | <i>Manager, Truck Sales</i> |
| Alex R. McCombe | <i>Manager, Construction Equipment Sales</i> |
| Charles J. Munro | <i>Manager, Farm and Industrial Equipment Sales</i> |
| Lawrence J. Murphy | <i>Manager, Sales Finance</i> |
| Ronald E. Penfold | <i>Manager, Engineering</i> |
| Charles W. Wolfard | <i>Manager, Supply and Inventory</i> |

PRESIDENT'S LETTER



The year 1972 was one of firm markets for our products. This followed a trend established in the prior year. During a full fiscal period, we were in a position to utilize our resources in an expanding economy. These conditions produced the highest sales results that we have ever recorded. Through increased sales and profit improvement programs, our income also increased appreciably.

Our customers, dealers and distributors have indicated broad and enthusiastic acceptance of our products and services. Our lines have been strengthened by the addition of models that have opened up new markets to us. Improvements have been made in many of our already established lines. Customer services have been increased in scope and after-delivery services have been expanded. We have aggressively promoted our products domestically, and we have increased our efforts in off-shore markets.

The trucking industry continued a strong trend to more power and a greater use of diesel engines. We have shared well in this business. We expect the demand to remain at a high level through 1973 and we are in an excellent position to participate. New truck models in the heavy-duty category have been introduced. Several new sales and service outlets are being opened and others are planned.

The growing recreational vehicle market has brought increased sales of our light-duty vehicles, particularly for the Scout and Travelall. This area of our business has excellent potential and we are directing many of our promotional activities to this market.

The upswing in the farm economy continued through 1972 and industry sales of farm equipment increased correspondingly. We participated fully in the improved market. Our products are designed to meet the needs of modern farming methods and the demand for larger, more sophisticated tractors and machines. The outlook for 1973 is for sustained growth. We have excellent opportunities to further develop our position as a leader in the industry.

The use of industrial tractors and equipment continued to expand. This area of our business, along with our lawn and garden equipment, again showed good improvement in 1972. In addition to customary uses, many new adaptations and applications are further increasing the potential of this product line.

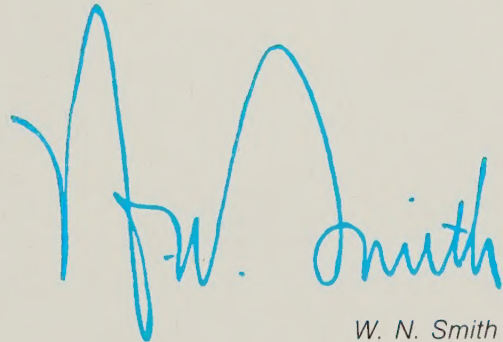
A number of important major projects and a return to economic stability have stimulated the construction business. Notably, the forest industries have recovered to a good degree and our construction equipment business in that sector of the economy has improved. We have also been directing our sales efforts towards markets in which we have not previously shared. The results have been encouraging. Our products have established a reputation for performance and reliability among many new customers. We expect 1973 to be a more active year for the construction industry.

Conditions in the west coast forestry industry have had a material effect upon our subsidiary in Vancouver, Pacific Truck and Trailer Ltd. Improvements in that industry are now evident, and along with some substantial overseas orders, the outlook for Pacific is encouraging.

Increased efforts to promote our export business have resulted in several substantial orders. Although many factors at home and abroad can affect the success of this area of our business, the outlook is good and we intend to pursue it aggressively.

During the latter part of our fiscal year, Robert D. Musgjerd resigned as president, to accept a senior position with International Harvester Company in Chicago, Illinois. His energetic leadership and his wise counsel have contributed significantly to the improved results of the Company.

Our past achievements and our prospects for the future have been made possible by the dedicated efforts of employees, dealers and distributors, and the confidence and support of customers and suppliers. To all of them, on behalf of the Board of Directors, I extend our sincere appreciation.

A handwritten signature in blue ink, appearing to read "W. N. Smith". The signature is stylized with large, sweeping loops for the first and last names, and a more compact, cursive style for the middle initial "N".

W. N. Smith



The new Paystar 5000 series trucks are built for extreme duty use, on and off the highway.

Chatham Works produces well-built cabs that provide safety and increase driver efficiency.



Style and durability are attracting users to International vehicles in the recreation-utility market.



The Cargostar series, built at Chatham, is at work all over North America and in many countries abroad.



Models like the new Fleetstar 2070A keep International the leader in heavy-duty trucks.

REVIEW OF OPERATIONS

The strong rate of growth in the Canadian economy that was evident in 1971 accelerated throughout 1972. These improved conditions were beneficial to the industries we serve and sustained efforts were made to promote the sale of our products and services. This combination of circumstances, together with good acceptance by our customers, had a favourable effect on the sales of all of our product lines.

*Record setting year
for truck sales*

The truck market, which is fundamental to the transportation of goods and services, experienced considerable growth in the past year. There is also a rapidly expanding demand for smaller trucks and utility vehicles for recreational use. As a result more trucks were sold in Canada in 1972 than in any previous year.

Sales of International trucks, service parts and service in 1972 were up almost 33 per cent over the previous year. This volume was greater by a substantial margin than in any other year in our history.

Total International truck sales generally kept pace with the industry. Significant gains were made, however, in the growing heavy-duty and diesel markets. Our position in these areas has strengthened considerably with the introduction of the new Transtar 4000 series in late 1971 and the Paystar 5000 series last September. These conventional trucks are at the top of the heavy-duty line and were put into production following eight years of design and test work.

*Scout II popular in recreation
— utility market*

In the light-duty market the Scout II has proven to be very popular and has resulted in a large increase in our participation in the utility vehicle field. The attractively styled and ruggedly designed Scout II is the only North American second generation vehicle in the recreation-utility class. Sales of the 1972 model Travelall were strong and its share of the utility wagon market was substantially increased.

Production at our Chatham truck plant was sustained at high levels throughout 1972. This was the result of record domestic sales volume and increased export shipments to the United States. Approximately 60 per cent of the trucks produced at Chatham are sold in the United States. Most of these export sales consist of the medium to medium-heavy cab-over Cargostar models. As the only source for these models, Chatham Works engineers and manufactures them for sale throughout the world. Production is expected to continue at near capacity levels in 1973.

The market for trucks will continue to grow, but it is not anticipated that the annual growth during the next few years will match that of the past year. The full line of International trucks continues to build a reputation for top quality and performance and our expanding sales and distribution system is second to none. These factors should result in an improvement of our position in the truck industry in the coming year.

*Farm equipment sales increase
40 per cent*

In 1972 the agricultural economy continued the growth trends established in 1971. The markets for Canadian farm products, particularly for grain produced in the western provinces, were very strong and harvest conditions were generally favourable. Of equal importance was the resurgence of optimism on the part of the farm community. These conditions provided the impetus for a successful sales year for the farm equipment industry.

Sales of IH farm equipment, service parts and service were up 40 per cent over 1971, and our share of the total industry sales also improved in 1972. This substantial increase was lead by farm tractor sales which were up 47 per cent. Most of the models in the current line of International tractors were introduced just over a year ago. They have proven to be very well accepted. We increased our participation in the higher powered farm tractor market for the second consecutive year.

*Dealer organization further
strengthened*

Our dealer organization was further strengthened in the past year. Inventories are current and dealers are more financially stable than in several years. Morale is high and is continuing to improve after difficult years for the industry in the late sixties.

Export sales of the farm equipment produced at our Hamilton plant were considerably higher in 1972 than in 1971 as sales to the United States were up substantially. Almost 75 per cent of the production at Hamilton Works is exported. As well as other farm equipment, export sales from Hamilton Works include parts for further manufacture and service application, and the 500C crawler tractor.

The demand for farm equipment should continue to be good in 1973 and we expect moderate sales increases in both domestic and export markets.

*Increased efforts in off-shore
sales showing results*

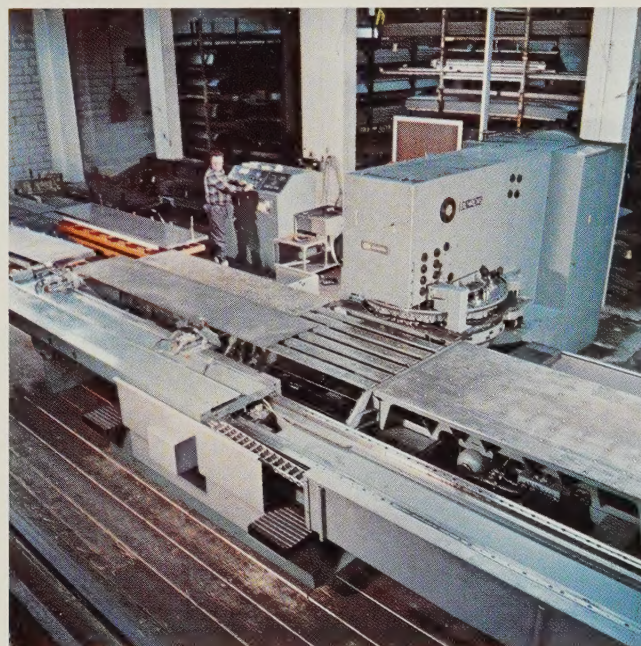
As a result of concerted efforts to create off-shore markets for our Canadian built products, several substantial orders were received during 1972. Through direct personal contact and the worldwide IH sales organization, we have established sound business relationships in many countries during the past several years. Our success to date in selling our products abroad has shown us the potential that exists and we will continue our efforts to increase our participation wherever possible.



International windrowers are designed and built at Hamilton for use in North America and overseas markets.



Modern International combines meet the demand for high-capacity harvesting equipment.



The precision tools used at Hamilton Works are illustrated by this numerically controlled automated press.

A reputation for performance and reliability helps maintain our leadership position in the farm tractor industry.



The powerful TD-25C crawler tractor has established an excellent reputation among owners and operators.

International-Hough loaders have long been recognized as the standard of value in the construction industry.



International loader-backhoes, part of a wide range of industrial equipment, are designed and built for efficiency and reliability.

A wide variety of PAY loaders and the PAY logger are produced at the Candiatic, Quebec plant.

*Construction equipment sales
highest in Company's history*

Sales of IH construction equipment and service parts in 1972 were the highest in the Company's history. The business climate was good for this product line as most of the major industries that purchase construction equipment operated in an expanding and optimistic environment throughout the year. The forestry industry, a major market for power equipment, has suffered from considerable labour problems which now appear to be resolved.

Our construction equipment sales and distribution organization built upon the improvements started in 1971. A new distributor was appointed for the province of Quebec. Distributors in other areas of the country have expanded and improved their facilities.

Production at our Candiach, Quebec plant was up 25 per cent in 1972 over 1971. The Candiach operation is responsible for manufacturing the International-Hough rubber-tired loaders sold in Canada as well as certain logging skidders which are marketed throughout North America.

*Northern developments hold
high potential for heavy
equipment*

Canada is on the threshold of development of the vast resources in the northern territories. Much of this development will depend upon the use of large amounts of heavy construction equipment. IH offers a full line of proven equipment for this type of application and has supporting service facilities throughout the country. We are prepared for this business development in the coming years, and look forward to participating in these exciting ventures.

*Industrial equipment continues
upward trend in sales volume*

Sales of IH industrial equipment and consumer products continued the upward trend of the past several years and the 1972 volume exceeded all previous years. Industrial tractor and equipment sales are closely related to the general growth of the economy. Our increased business is attributable to strong merchandising activity of an expanded product line in a buoyant market, and the strengthening of our dealer organization. The International industrial crawler tractor line has gained wide acceptance in the industry and our market penetration of these machines increased by 29 per cent in 1972.

The continued success of the Cadet and Cub Cadet series of lawn and garden tractors led the growth of IH consumer products. Sales of these products increased 60 per cent in 1972 over 1971. During the year new lines of smaller Cadet tractors and snow blowers were added to this constantly expanding group of products. New models of the popular Cub Cadet tractors were introduced in 1972. These tractors offer more features and power options than ever before.

Improvements indicated in markets for Pacific trucks

Sales by our wholly-owned subsidiary, Pacific Truck and Trailer Ltd. were about the same as in 1971. This company designs, manufactures and markets heavy-duty logging trucks and trailers. Most of its products are sold in British Columbia. The labour problems in the lumbering and pulp and paper industries on the west coast during 1972 somewhat curtailed sales of Pacific trucks to this market. We expect 1973 results to be improved over the last two years through increased domestic and off-shore sales.

Solar gas turbine sales level maintained

Sales of Solar equipment, which consist primarily of gas turbine stationary power units, were maintained at virtually the same level in 1972 as in 1971. However, at year end, undelivered orders were substantially higher than last year. We are very optimistic about the opportunities for the sale of Solar products in the years ahead.

Presidential change

W. Norman Smith was elected president, International Harvester Company of Canada, Limited, succeeding Robert D. Musgjerd. Mr. Smith began his career with the Company in 1929 at Hamilton, Ontario. He was elected to the Board of Directors in 1963 and vice president, finance, in 1967.

Robert D. Musgjerd resigned as president and as a director, to accept a senior executive position with responsibility for the Overseas Division of International Harvester Company.

Executive changes

William R. Fleming was elected senior vice president, marketing, with responsibility for all sales and marketing functions of the Company. Lester W. Lincke was elected vice president and comptroller, and a director.

Charles R. Dean was elected vice president and a director, with responsibility for manufacturing and employee relations.

Edward R. Griffith, treasurer and comptroller of International Harvester Credit Corporation of Canada Limited, was elected treasurer of the Company.

John L. Wade, vice president, and Earle L. Edmonds, secretary, were elected to the Board of Directors.

Brooks McCormick resigned from the Board of Directors upon his election as chief executive officer of International Harvester Company.

William H. Hagerman, vice president of manufacturing, and Walter J. Guziak, comptroller, resigned to accept executive positions with International Harvester Company. Both were members of our Board of Directors.



Cub Cadet tractors perform many duties in both residential and industrial applications.



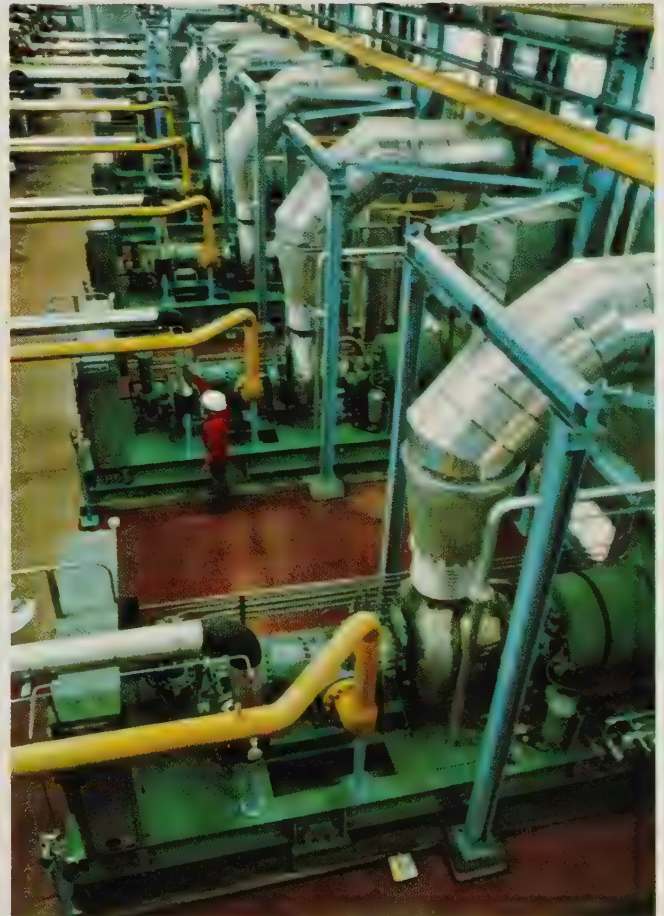
The export of grain drills to Great Britain is an example of worldwide acceptance of our Canadian-built products.



A crawler tractor equipped with special wide tracks leaves the Hamilton Works assembly line.



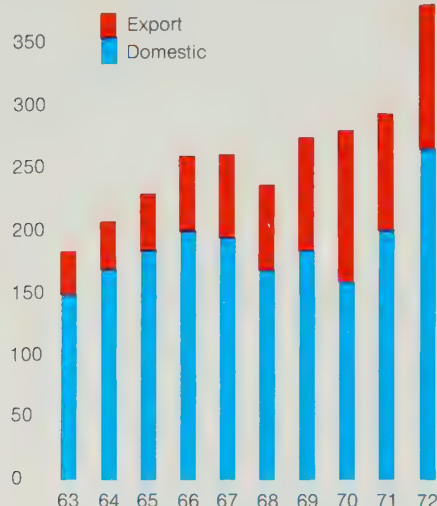
Many of our products, like this Pacific truck hauling logs in British Columbia, are associated with natural resource industries.



Eight 1200 horsepower Solar gas turbines power this natural gas conservation plant in Alberta.

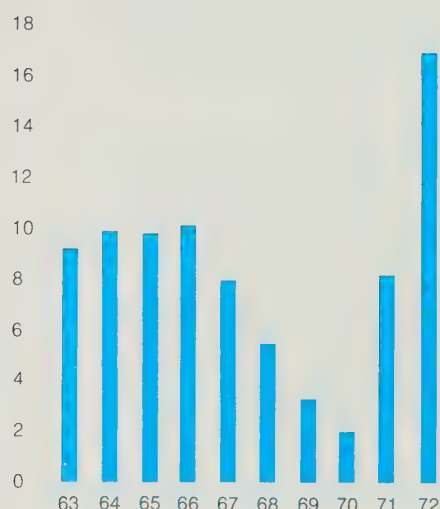
SALES

Millions of dollars



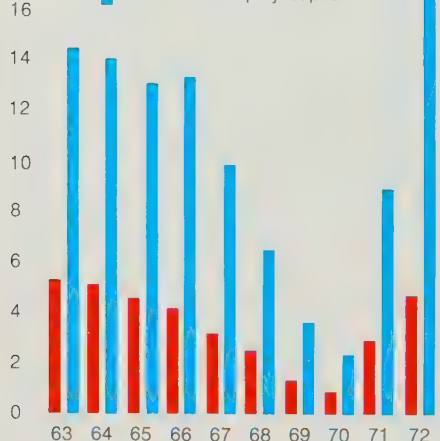
NET INCOME

Millions of Dollars



RETURN ON SALES AND EQUITY

Per cent of sales
Per cent of equity capital



FINANCIAL REVIEW

INCOME RETAINED

The balance in Income Retained at October 31, 1972 was \$91,243,000 as compared with \$82,688,000 at the close of the previous fiscal year. The amount retained for the 1972 fiscal year was \$8,556,000. This compares with \$6,006,000 for the prior year.

At October 31, 1972 \$35,384,000 of International Harvester Company of Canada, Limited income retained was restricted as to payment of cash dividends by a long-term debt agreement covering its 5¼% notes.

LEASING SUBSIDIARY

The income of this subsidiary in 1972 was \$47,979. This compares with \$11,837 in 1971. Summary statements of financial condition for Harcan Leasing Limited at October 31, 1972 and 1971 follow:

	1972	1971
Assets (equipment and property leased to parent and dealers — net of depreciation \$37,530 in 1972; nil in 1971)	\$1,870,775	\$ 906,502
Leased vehicles (net of depreciation \$1,366,434 in 1972; \$111,510 in 1971)	3,755,469	589,522
Other assets	1,510,598	322,195
Total assets	7,136,842	1,818,219
Liabilities (including \$5,790,303 payable to affiliates in 1972; \$1,471,000 in 1971)	6,858,026	1,577,382
Equity capital (includes capital stock - \$239,000)	\$ 278,816	\$ 240,837

CAPITAL EXPENDITURES

Capital expenditures were \$1,561,000 in 1972. The effects of these expenditures and of other factors, including depreciation, upon the property account of the Company are displayed as follows:

Net property at October 31, 1971	\$25,615,000
Changes during 1972 fiscal year	
Capital additions	\$ 1,561,000
Depreciation	(3,019,000)
Net book value of property dispositions	(657,000)
Net decrease during the year	(2,115,000)
Net property at October 31, 1972	\$23,500,000

Capital expenditures are expected to be higher in 1973. At October 31, 1972 the Company and its leasing subsidiary carried forward appropriated balances totalling \$2,787,000. Commitments on appropriations in progress at October 31, 1972 approximated \$1,845,000.

EMPLOYMENT

The Company's average employment was 5,667 in 1972. This compared with 4,812 in 1971. In 1971, lengthy work stoppages brought about by major strikes at our larger manufacturing plants were experienced. Average employment was affected accordingly.

Compensation paid to employees in 1972 totalled \$54,000,000 with an additional amount of \$10,000,000 paid out for insurance, medical and pension plans and other fringe benefits.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration paid to directors and senior officers, as defined in The Business Corporations Act, 1970 (Ontario) for the year ended October 31, 1972, amounted to \$309,000 (1971—\$303,000)

RETIREMENT PLANS

The Company has retirement plans in effect for eligible salaried and hourly-rated employees. Total pension expense for the years 1972 and 1971 was \$3,263,000 and \$2,250,000 respectively. Based on accepted actuarial methods, an experience surplus has been created of which approximately \$212,000 and \$700,000 has been used to reduce Company contributions to the plans during 1972 and 1971. Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs which are being funded over twenty-five years from January 1, 1965.

The actuarially computed unfunded liability in respect of past service benefits at October 31, 1972 was \$22,783,000 of which \$20,832,000 was vested in accordance with the terms of the plan but for which the Company does not have a legal obligation.

WORKING CAPITAL

Working capital of the Company increased by \$6,866,000 in 1972, from \$53,895,000 at the beginning of the year to \$60,761,000 at the end of the year.

A Statement of Changes in Financial Position is shown on page 18.

INVENTORIES

Total inventories of finished goods, raw materials and supplies, and work in process increased from \$49,788,000 in 1971 to \$65,988,000 in 1972. The average level of inventories was \$68,810,000 this year, up from \$57,585,000 last year. Higher inventory levels were required to support the increased volume of sales.

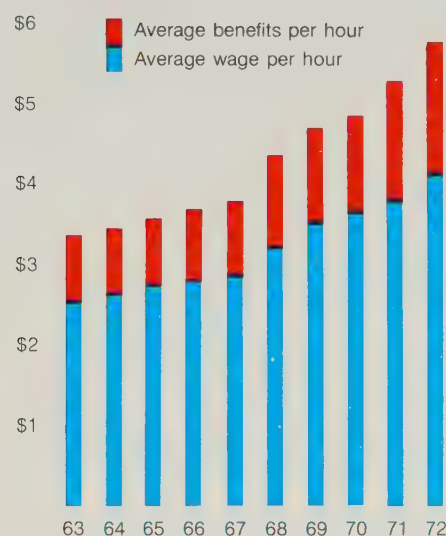
Inventories are summarized by major classifications as follows:

	1972	1971
Finished goods	\$43,711,000	\$32,497,000
Raw materials and supplies	15,760,000	12,791,000
Work in process	6,517,000	4,500,000
Total	<u>\$65,988,000</u>	<u>\$49,788,000</u>

INCOME TAXES

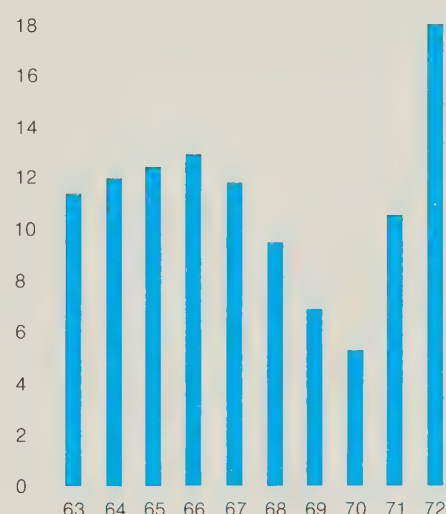
Tax audits have been completed and settled through 1970.

EMPLOYEE AVERAGE HOURLY EARNINGS



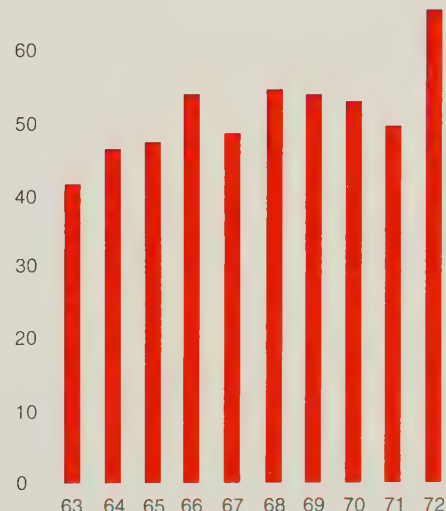
WORKING CAPITAL ADDED BY OPERATIONS

Millions of dollars



YEAR-END INVENTORIES

Millions of dollars





AUDITORS' OPINION

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world

Chartered Accountants

105 MAIN STREET EAST, HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the Statement of Financial Condition of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1972 and the Statements of Income and Income Retained and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have made a similar examination of the Statement of Financial Condition of the Company's wholly-owned non-consolidated finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited as at October 31, 1972.

In our opinion these financial statements present fairly (a) the financial position of International Harvester Company of Canada, Limited and subsidiaries as at October 31, 1972 and the results of their operations and changes in their financial position for the year then ended, and (b) the financial position of the Company's wholly-owned non-consolidated finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited as at October 31, 1972, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

November 29, 1972.

Deloitte, Haskins & Sells

BASIS OF FINANCIAL STATEMENTS

CONSOLIDATION POLICY

Pacific Truck and Trailer Manufacturing Limited is consolidated in this report. The net income of the wholly-owned finance subsidiaries, International Harvester Credit Corporation of Canada Limited and Harcan Leasing Limited, and their income retained are combined herein with the consolidated group. The equity capital of these subsidiaries appears as an investment in the Statement of Financial Condition. A separate Statement of Financial Condition of International Harvester Credit Corporation of Canada Limited appears on page 19.

FOREIGN EXCHANGE

Current assets and current liabilities at October 31, 1972, have been translated at the year end exchange rates. Long-term debt has been translated at the historic rate in effect at the time of incurring the debt.

INVENTORY VALUATION

Inventories have been valued at the lower of cost or market, market being considered as replacement cost, which does not exceed net realizable value.

DEPRECIATION

Depreciation has been computed on the straight-line method at rates generally calculated to absorb the cost of property during the period of its useful life. Formerly, depreciation was calculated on the declining balance method. The change in method has had no material effect on net income.

DEFERRED INCOME TAXES

The Company and its subsidiaries follow the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income taxes are actually payable.



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED and Subsidiaries

STATEMENT OF INCOME AND INCOME RETAINED

For the Years Ended October 31, 1972 and 1971

	1972	1971
SALES AND OTHER REVENUES		
Sales		
Dealers and users in Canada	\$266,681,206	\$202,076,981
International Harvester Company	93,016,153	74,220,549
Other affiliated companies and jobbers	3,984,261	2,631,740
	<u>363,681,620</u>	<u>278,929,270</u>
Net income of finance subsidiaries (pages 12 and 19)	2,673,574	2,114,662
Other income, less sundry income deductions	821,938	435,829
TOTAL	<u>367,177,132</u>	<u>281,479,761</u>
COSTS AND EXPENSES		
Cost of sales	305,813,623	238,753,397
Selling and administrative expenses	26,500,308	23,036,912
Charges for financing services on wholesale notes sold to the finance subsidiary	4,677,527	3,853,355
Interest expense	351,372	911,774
Taxes on income (page 13)	12,828,726	6,743,403
TOTAL	<u>350,171,556</u>	<u>273,298,841</u>
NET INCOME	<u>17,005,576</u>	<u>8,180,920</u>
DIVIDENDS PAID	<u>8,450,000</u>	<u>2,175,000</u>
INCOME RETAINED — FOR THE YEAR	8,555,576	6,005,920
— AT BEGINNING OF THE YEAR	82,687,750	76,681,830
— AT END OF THE YEAR	<u>\$ 91,243,326</u>	<u>\$ 82,687,750</u>

The information in the Financial Review on pages 12 and 13 and the Basis of Financial Statements presented on page 14 are an integral part of this statement.

**STATEMENT OF FINANCIAL CONDITION**

October 31, 1972 and 1971

ASSETS	1972	1971
CURRENT ASSETS		
Cash	\$ 107,807	\$ 412,281
Marketable securities — at cost which approximates market	2,981,053	16,970,792
Demand notes receivable from finance subsidiaries	2,390,000	2,590,000
Receivables		
Trade accounts	17,860,145	15,623,558
Miscellaneous	2,643,190	1,723,493
Due from affiliated companies	243,350	23,024
Due from finance subsidiaries	7,946,748	471,512
Deferred income taxes	1,269,097	821,000
Inventories	65,987,717	49,787,577
TOTAL CURRENT ASSETS	<u>101,429,107</u>	<u>88,423,237</u>
INVESTMENT IN FINANCE SUBSIDIARIES		
(Statements of Financial Condition on pages 12 and 19)		
Equity in net assets	<u>18,688,442</u>	<u>16,624,868</u>
OTHER ASSETS	<u>4,101,230</u>	<u>4,015,729</u>
PROPERTY (page 12)		
Real estate, machinery and equipment — at cost	64,738,870	64,784,252
Less accumulated depreciation	41,239,205	39,168,954
NET PROPERTY	<u>23,499,665</u>	<u>25,615,298</u>
TOTAL ASSETS	<u>\$147,718,444</u>	<u>\$134,679,132</u>

The information in the Financial Review on pages 12 and 13 and the Basis of Financial Statements presented on page 14 are an integral part of this statement.

LIABILITIES AND EQUITY CAPITAL

1972

1971

CURRENT LIABILITIES

Bank indebtedness	\$ 6,480,914	\$ 1,400,000
Current invoices and accruals	20,396,449	15,132,333
Accrued taxes	9,792,043	8,239,433
Current maturities of long-term debt	1,648,325	2,190,675
Due to affiliated companies	2,350,585	3,718,583
Due to finance subsidiaries	—	3,847,081
TOTAL CURRENT LIABILITIES	<u>40,668,316</u>	<u>34,528,105</u>

LONG-TERM DEBT

5¼% notes—maturing November 1, 1973 payable in equal semi-annual instalments	200,000	1,000,000
6% note—maturing December 31, 1972 payable in semi-annual instalments (U.S.—\$750,000)	—	813,525
6% debenture—maturing November 15, 1977 payable in monthly instalments	<u>147,000</u>	<u>184,700</u>
TOTAL LONG-TERM DEBT	<u>347,000</u>	<u>1,998,225</u>

DEFERRED INCOME TAXES

459,802

465,052

EQUITY CAPITAL

Capital stock		
Authorized, issued and fully paid—150,000 shares of \$100 par value	15,000,000	15,000,000
Income retained (page 12)	<u>91,243,326</u>	<u>82,687,750</u>
TOTAL EQUITY CAPITAL	<u>106,243,326</u>	<u>97,687,750</u>

TOTAL LIABILITIES AND EQUITY CAPITAL

\$147,718,444

\$134,679,132

Approved by the Board: W. N. Smith, *Director*
L. W. Lincke, *Director*

**STATEMENT OF CHANGES IN FINANCIAL POSITION**

For the Years Ended October 31, 1972 and 1971

	1972	1971
SOURCE OF WORKING CAPITAL		
Income of the consolidated companies	\$ 14,332,002	\$ 6,066,258
Dividends from finance subsidiaries	610,000	1,210,000
Items not requiring outlay of working capital		
Depreciation and amortization	3,019,323	3,359,589
Deferred income taxes	(453,347)	164,677
Other	135,950	135,950
Working capital provided from operations	17,643,928	10,936,474
Property disposals	657,524	1,584,859
TOTAL	18,301,452	12,521,333
APPLICATION OF WORKING CAPITAL		
Capital expenditures	1,561,214	1,583,721
Cash dividends	8,450,000	2,175,000
Reduction in long-term debt	1,651,225	2,199,375
Increase in investments in finance subsidiaries	—	239,000
Other-net	(226,646)	623,965
TOTAL	11,435,793	6,821,061
INCREASE IN WORKING CAPITAL	6,865,659	5,700,272
WORKING CAPITAL — AT BEGINNING OF THE YEAR	53,895,132	48,194,860
— AT END OF THE YEAR	<u>\$ 60,760,791</u>	<u>\$ 53,895,132</u>
CHANGES IN WORKING CAPITAL		
Cash	\$ (304,474)	\$ 313,623
Marketable securities	(13,989,739)	16,970,792
Notes and accounts receivable	10,651,846	(6,707,338)
Deferred income taxes	448,097	(323,288)
Inventories	16,200,140	(3,390,339)
Bank indebtedness	(5,080,914)	973,356
Notes payable	—	6,000,000
Current invoices and accruals	(5,264,116)	(1,414,645)
Accrued taxes	(1,552,610)	(6,706,850)
Current maturities of long-term debt	542,350	(271,175)
Due to affiliated companies and finance subsidiaries	5,215,079	256,136
INCREASE IN WORKING CAPITAL	<u>\$ 6,865,659</u>	<u>\$ 5,700,272</u>

The information in the Financial Review on pages 12 and 13 and the Basis of Financial Statements presented on page 14 are an integral part of this statement.



STATEMENT OF FINANCIAL CONDITION

October 31, 1972 and 1971

ASSETS

CURRENT ASSETS

	1972	1971
Cash	\$ 49,115	\$ —
Notes receivable		
Wholesale (less deferred discounts and unearned interest of \$486,706 in 1972 and \$435,597 in 1971)	58,532,269	48,212,287
Retail (less unearned finance charges of \$12,972,535 in 1972 and \$9,260,550 in 1971)	79,806,569	64,648,288
	138,338,838	112,860,575
Less allowance for losses	1,871,944	1,719,076
Notes receivable (net)	136,466,894	111,141,499
Due from parent and affiliated companies	5,229,762	4,656,747
Deferred income taxes	940,000	899,000
TOTAL CURRENT ASSETS	142,685,771	116,697,246
PREPAID INTEREST AND OTHER ASSETS	324,848	457,090
TOTAL ASSETS	\$143,010,619	\$117,154,336

LIABILITIES AND EQUITY CAPITAL

CURRENT LIABILITIES

Notes and loans due within one year (includes due to affiliates of \$636,375 in 1971)	\$ 68,572,728	\$ 57,438,556
Demand notes payable—parent company	2,100,000	2,400,000
Accounts payable (including parent company of \$7,676,207 in 1972)	7,908,574	70,025
Accrued taxes	428,754	457,186
Accrued interest	1,107,404	707,857
Dealers' contingency credits	1,265,220	1,260,508
TOTAL CURRENT LIABILITIES	81,382,680	62,334,132

SENIOR INDEBTEDNESS

Notes and debentures—5¾% to 9½% due 1987 or prior	34,107,500	29,325,360
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SUBORDINATED INDEBTEDNESS

Notes—6% to 7¾% due 1984 or prior (includes due to affiliates of U.S. \$6,600,000)	9,110,813	9,110,813
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EQUITY CAPITAL

Capital stock		
Authorized—250,000 shares of \$100 par value—issued and fully paid 100,000 shares	10,000,000	10,000,000
Income retained	1972	1971
Balance, beginning of year	\$ 6,384,031	\$ 5,481,206
Net income for the year	2,625,595	2,102,825
Less cash dividends	(600,000)	(1,200,000)
Balance, end of year	8,409,626	6,384,031
TOTAL EQUITY CAPITAL	18,409,626	16,384,031
TOTAL LIABILITIES AND EQUITY CAPITAL	\$143,010,619	\$117,154,336

Approved by the Board: W. N. Smith, *Director*
W. R. Fleming, *Director*

Basis of Financial Statements

RECEIVABLES. At October 31, 1972 wholesale notes receivable included \$3,559,576 which will mature after October 31, 1973, of which none will mature after October 31, 1974 and retail notes receivable included \$55,502,522 maturing after October 31, 1973, of which \$24,094,695 will mature after October 31, 1974.

DEFERRED INCOME TAXES. The Company follows the accounting practice of providing the total amount of income taxes applicable to the income reported in the year regardless of the year in which the income tax is actually payable.

NET INCOME. Earnings on wholesale notes are derived from carrying charges based on the monthly note balances and from a discount which the Company takes into income upon settlement of the notes.

Finance charges included in retail notes are taken into income over the life of the notes.

INDEBTEDNESS. Dividend distribution under the provisions of the loan agreements relating to the senior and subordinated indebtedness is restricted to approximately \$4,200,000 at October 31, 1972 and \$2,150,000 at October 31, 1971.

STATISTICAL DATA (Dollar amounts in millions)

	1972	1971	1970
SALES BY AREA OF FINAL SALE			
Canada	\$266.7	\$202.1	\$158.7
United States	93.0	74.2	88.7
Europe and Africa	1.9	.6	.4
Latin America	.9	.3	1.0
Pacific Area	1.2	1.7	.5
Total	<u>\$363.7</u>	<u>\$278.9</u>	<u>\$249.3</u>
NET INCOME			
Amount	\$ 17.0	\$ 8.2	\$ 2.0
Per cent of sales	4.68%	2.93%	.81%
Per cent of equity capital beginning of year	17.41%	8.92%	2.25%
WORKING CAPITAL CHANGES			
From operations —	\$ 18.0	\$ 10.6	\$ 5.3
Added by increase in long-term debt	—	—	.2
Net effect of changes in other assets, etc.	.6	1.1	(1.5)
Total	<u>18.6</u>	<u>11.7</u>	<u>4.0</u>
Used for:			
Capital expenditures	1.6	1.6	3.8
Common stock dividends	8.5	2.2	.6
Retirement of long-term debt	1.6	2.2	1.9
Total	<u>11.7</u>	<u>6.0</u>	<u>6.3</u>
Increase or (decrease)	<u>\$ 6.9</u>	<u>\$ 5.7</u>	<u>\$ (2.3)</u>
DEPRECIATION	<u>\$ 3.0</u>	<u>\$ 3.4</u>	<u>\$ 3.7</u>
EQUITY CAPITAL AT END OF YEAR — OCTOBER 31			
Common stock	\$ 15.0	\$ 15.0	\$ 15.0
Income retained	91.2	82.7	76.7
Total equity capital	<u>\$106.2</u>	<u>\$ 97.7</u>	<u>\$ 91.7</u>
REPRESENTED BY			
Current assets	\$101.4	\$ 88.4	\$ 81.6
Less: Current liabilities	40.7	34.5	33.4
Working capital	60.7	53.9	48.2
Net property	23.5	25.6	29.0
Investment in finance subsidiaries	18.7	16.6	15.5
Other assets	4.1	4.0	3.8
Total	<u>107.0</u>	<u>100.1</u>	<u>96.5</u>
Less:			
Long-term debt	.3	2.0	4.2
Deferred income taxes	.5	.4	.6
Total	<u>.8</u>	<u>2.4</u>	<u>4.8</u>
Total net assets	<u>\$106.2</u>	<u>\$ 97.7</u>	<u>\$ 91.7</u>
RATIOS			
Current assets to current liabilities	2.5-1	2.6-1	2.4-1
Equity capital to debt	2.6-1	2.7-1	2.4-1

1969	1968	1967	1966	1965	1964	1963
\$184.4	\$169.0	\$193.8	\$200.9	\$186.5	\$170.1	\$149.8
74.5	51.7	53.7	42.6	25.0	22.6	22.9
.3	.9	.8	.4	.4	.7	.7
1.1	.7	.6	.5	.6	.9	.5
.6	.9	1.1	1.3	1.1	1.1	.5
<u>\$260.9</u>	<u>\$223.2</u>	<u>\$250.0</u>	<u>\$245.7</u>	<u>\$213.6</u>	<u>\$195.4</u>	<u>\$174.4</u>
\$ 3.3	\$ 5.6	\$ 8.0	\$ 10.2	\$ 9.8	\$ 9.9	\$ 9.3
1.25%	2.51%	3.21%	4.15%	4.59%	5.07%	5.33%
3.63%	6.52%	9.87%	13.28%	13.12%	14.10%	14.51%
\$ 6.9	\$ 9.5	\$ 11.8	\$ 12.9	\$ 12.4	\$ 12.0	\$ 11.4
—	3.5	—	—	—	—	—
.1	.3	.2	(1.2)	.2	(.6)	(1.5)
<u>7.0</u>	<u>13.3</u>	<u>12.0</u>	<u>11.7</u>	<u>12.6</u>	<u>11.4</u>	<u>9.9</u>
4.3	3.7	7.6	5.8	4.0	3.0	4.3
2.9	1.6	3.6	5.6	7.7	5.4	5.0
1.9	—	.8	.4	.8	.8	.8
<u>9.1</u>	<u>5.3</u>	<u>12.0</u>	<u>11.8</u>	<u>12.5</u>	<u>9.2</u>	<u>10.1</u>
\$ (2.1)	\$ 8.0	\$ —	\$ (.1)	\$.1	\$ 2.2	\$ (.2)
\$ 4.5	\$ 4.6	\$ 4.2	\$ 3.2	\$ 2.8	\$ 2.5	\$ 2.6
\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0
75.3	74.8	70.8	66.4	61.8	59.7	55.2
<u>\$ 90.3</u>	<u>\$ 89.8</u>	<u>\$ 85.8</u>	<u>\$ 81.4</u>	<u>\$ 76.8</u>	<u>\$ 74.7</u>	<u>\$ 70.2</u>
\$ 77.8	\$ 78.6	\$ 65.3	\$ 66.7	\$ 69.8	\$ 65.5	\$ 64.4
27.3	26.0	20.7	22.1	25.1	20.9	22.0
50.5	52.6	44.6	44.6	44.7	44.6	42.4
29.5	29.8	31.0	27.7	25.3	24.2	23.9
15.1	14.2	13.6	13.1	11.6	11.3	9.9
1.6	1.5	1.6	1.6	1.1	1.1	1.1
<u>96.7</u>	<u>98.1</u>	<u>90.8</u>	<u>87.0</u>	<u>82.7</u>	<u>81.2</u>	<u>77.3</u>
5.9	7.7	4.2	5.0	5.4	6.2	7.0
.5	.6	.8	.6	.5	.3	.1
<u>6.4</u>	<u>8.3</u>	<u>5.0</u>	<u>5.6</u>	<u>5.9</u>	<u>6.5</u>	<u>7.1</u>
<u>\$ 90.3</u>	<u>\$ 89.8</u>	<u>\$ 85.8</u>	<u>\$ 81.4</u>	<u>\$ 76.8</u>	<u>\$ 74.7</u>	<u>\$ 70.2</u>
2.9-1	3.0-1	3.2-1	3.0-1	2.8-1	3.1-1	2.9-1
2.7-1	2.7-1	3.4-1	3.0-1	2.5-1	2.8-1	2.4-1



INTERNATIONAL HARVESTER COMPANY OF CANADA, LIMITED
208 Hillyard Street, Hamilton, Ontario